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DIRECTORS

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SUPT. LEAF PROCESSING

P. FRANK HANES
COUNSEL

E. A. DARR
MGR. SALES DEPT.

R. J. Reynolds Tobacco Company

WINSTON-SALEM, N. C.

January 13, 1938.

To the Stockholders of
R. J. REYNOLDS TOBACCO COMPANY:

The Financial Statement of your Company at December 31, 1937, is submitted herewith.

Earnings for the year 1937, before deduction for flood casualty loss referred to below, amounted to $28,216,026.44, or $2.82 per share on common stocks outstanding. After making deduction for such flood loss, the net carried to Undivided Profits for the year amounted to $27,602,372.38, or $2.76 per share. In 1936 net earnings were $29,253,135.04, or $2.92 per share.

In 1936 interest and dividends on investments amounted to $485,684.62 and miscellaneous income to $464,292.61, a total of $949,977.23, whereas income from these sources in 1937 aggregated $278,007.78. In the former year the principal part of these items consisted of interest on United States Government securities and profit resulting from the sale of them. This income did not recur in 1937 as no such securities were owned during that year.

As noted in the Financial Report, the Company in 1937 sustained a casualty loss of $613,654.06 in the Ohio River flood without insurance coverage because insurance companies had not been willing to carry flood risks, in locations adjacent to the Ohio River, in any substantial amounts even on storages never before flooded and generally regarded as secure. In January 1937 the river rose to heights theretofore unheard of and reached storages theretofore untouched. Since this flood the Company has purchased land lying much higher above the river level and has moved affected storages to the new location as a safeguard against possible future floods.

The financial condition of your Company as set forth in the accompanying statement is presented on the same conservative basis as in former years.

During 1937, again, the higher prices paid to farmers for leaf tobacco and the heavier requirements of inventory to take care of continuing expansion in volume of the Company's principal brands, including CAMEL Cigarettes and PRINCE ALBERT Smoking Tobacco, are reflected in substantially higher inventories, which at December 31, 1937, were $23,313,816.19 greater than at the end of the previous year. Under this requirement of larger inventories at higher prices the Company borrowed funds as shown by the item of Notes Payable in the accompanying statement. Extensive plant additions and improvements likewise were made during 1937 in the amount of $3,189,989.95.

While stockholders in 1937 received dividends from the Company totalling $3.00 per share, it will be noted from the Financial Report that dividends deducted therein from Undivided Profits amounted to only $2.85 per share. This appearance of disparity is accounted for by the fact that the Company deducts in its Financial Report as of December 31 in each year any dividend payable on the first day of the succeeding year, with the result that the total of dividends deducted from Undivided Profits in the Financial Report for 1937 consists of the April, July and October dividends of that year and the dividend of January 1938, whereas the total of dividends received by the stockholders in 1937 consists of the January, April, July and October dividends of that year.

The dividend of sixty cents per share deducted in the accompanying Financial Report is the dividend which stockholders received on January 3, 1938. Under the new dividend schedule outlined in letter mailed to stockholders on October 21, 1937, the next dividend payment date will be February 15, instead of April 1 as heretofore; and succeeding dividend payment dates in 1938 will be May 15 instead of July 1, August 15 instead of October 1 and November 15 instead of the following January 1st.

As for many years past, the number of stockholders of the Company has continued to increase steadily throughout 1937, the total at the end of the year being in excess of 58,000.

Jas. A. Gray,
President.